

Balance of Trade in the United States Economy

Balance of trade is the relationship of a country's imports to its exports. It is calculated by subtracting the dollar value of imports from the dollar value of exports. When imports and exports are said to be in balance, or equal, the difference will be zero. If the result is negative, the country has a trade deficit. In other words, there are more imports than exports. Conversely, if the result is positive, the country has a trade surplus. Thus, there are more exports than imports.

Directions:

Examine the table below and calculate the balance of trade.

$$\text{Exports} - \text{Imports} =$$

| Year | Imports (billions of dollars) | Exports (billions of dollars) | Total Trade (billions of dollars) | Balance of Trade | GDP (billions of dollars) | Trade as % of GDP |
|------|----------------------------------|----------------------------------|--------------------------------------|---------------------|------------------------------|----------------------|
| 1960 | \$108.0 | \$87.5 | \$195.5 | -20.5 | 2376.7 | 8% |
| 1970 | \$223.1 | \$159.3 | \$382.4 | | 3578.0 | 11% |
| 1980 | \$324.8 | \$334.8 | \$659.6 | | 4900.9 | 13% |
| 1990 | \$632.2 | \$575.7 | \$1207.9 | | 6707.9 | 18% |
| 2000 | \$1532.3 | \$1133.2 | \$2665.5 | | 9224.0 | 29% |

Source: Economic Report of the President, Table B-2, 2002

A nation's balance of trade is an indicator analysts use to monitor a nation's economic health relative to other nations. A trade deficit indicates that a nation is spending more of its money on foreign goods and services. Since the money spent on imports does not go toward domestic goods and services, domestic businesses and workers are affected by the trade imbalance. Less demand for domestic goods means lower production levels and fewer sales. Furthermore, less demand reduces the need for workers.

When the United States dollar is strong compared to other currencies, imports become cheap and exports expensive. Analysts suggest that there must be an equal amount of investment in the United States economy by foreigners to offset the United States purchases of foreign goods.

Economists disagree about the importance placed upon the balance of trade. While some claim that the balance of trade is an important indicator, others argue it is only one indicator among many. Some economists suggest that trade imbalances will correct themselves over time. Specifically, the growing demand for United States service exports will reduce the trade deficit over time.

Source: http://www.theshortrun.com/data/International/trade_balance/explain.html

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Balance of Trade in the United States Economy (Questions)

Questions:

1. In what years did the United States have a trade surplus? _____

2. In what years did the United States have a trade deficit? _____

3. What does a trade deficit mean to United States producers? Workers? _____

4. What does a trade deficit mean to United States consumers? _____

5. What does a trade surplus mean to United States producers? Workers? _____

6. What does a trade surplus mean to United States consumers? _____

7. Using the Internet, almanacs, or other sources, support or oppose the following statement from the article: *"Some economists suggest that trade imbalances will correct themselves over time. Specifically, the growing demand for United States service exports will reduce the trade deficit over time."* _____

